

Abbeycroft COVID-19 Loan facility

Report number:	CAB/WS/20/072	
Report to and date:	Cabinet	10 November 2020
Cabinet members:	<p>Councillor Joanna Rayner Portfolio Holder for Leisure, Culture and Community Hubs Telephone: 01284 750366 Email: joanna.rayner@westsuffolk.gov.uk</p> <p>Councillor Sarah Broughton Portfolio Holder for Resources and Performance Telephone: 01284 787327 Email: sarah.broughton@westsuffolk.gov.uk</p>	
Lead officer:	<p>Jill Korwin Director Telephone: 01284 757252 Email: jill.korwin@westsuffolk.gov.uk</p>	

Decisions Plan: **The decision made as a result of this report will usually be published within 48 hours and cannot be actioned until five clear working days of the publication of the decision have elapsed. This item is included on the Decisions Plan.**

Wards impacted: **All wards**

Recommendation: **It is recommended that Cabinet:**

- 1. Agrees the final principles of the terms and conditions of the £1,000,000 loan facility for Abbeycroft Leisure agreed by Cabinet on 21 July 2020 (Report Number CAB/WS/20/051) as set out in Section 3 of Report Number CAB/WS/20/072, to be funded through usable capital receipts; and**
- 2. Delegated authority be given to the Council's Section 151 Officer, in consultation with the**

Portfolio Holders for Resources and Performance and for Leisure, Culture and Community Hubs, and the Director, to agree the final details of the loan based on the principles as agreed above and enter into a loan agreement(s) with Abbeycroft Leisure

1. Context to this report

1.1 Abbeycroft Leisure was established as a Leisure Trust in 2005, is a registered charity and gained the Social Enterprise mark in 2010. West Suffolk Council has a long-term collaboration agreement with the Trust to operate its five leisure centres and to deliver wider health and wellbeing activities and support the Council in its strategic objectives.

1.2 On 20 March 2020, Abbeycroft closed its leisure centres, in line with Government guidance, and all its income ceased, (other than the management fee the Council pays and some Council grant funding). Closure of centres and then reopening in a Covid safe way has had a huge impact on the viability of leisure service and operators across the country.

Current Position and funding for Leisure services

1.3 On 21 July 2020, Cabinet approved the creation of a £1,000,000 loan facility that Abbeycroft Leisure could access to support its cash flow position, having regard to the very significant impact Covid had had on its operations. This was set out in **Report Number CAB/WS/20/051**.

1.4 Since that report, Abbeycroft has taken further advice on the sectors' recovery projections and around its own short to medium term financial performance. Abbeycroft's cash flow position and balance sheet position mean that it has to consider very carefully taking on any external debt at this time, including the agreed loan facility from the Council. This report and its exempt appendices provide the final terms of that loan agreement which are deemed acceptable to both the Council and Abbeycroft's Board of Trustees.

1.5 To date, with the exception of the business support grant scheme, Abbeycroft have received no central Government support to assist with the impact of the COVID 19 pandemic. Abbeycroft has had to redirect its own accumulated balances to support its business model and the delivery of leisure services. West Suffolk Council has been able to provide some financial support to the Trust funded through its COVID 19 grant, albeit this has been limited due to its own financial challenges and other demands.

1.6 Unfortunately, due to a technicality within the income losses support scheme available to local authorities from central Government, West Suffolk has been unable to claim for the loss of income experienced by Abbeycroft. This is the case for many local authorities with outsourced Trust models and pressure has been put on central Government to review this position.

1.7 The Government's response to date on outsourced leisure services has been limited, however they have recently announced that £100m funding will be available to support leisure trusts running Council

facilities. At the time of writing this report, the Council is still awaiting full details of how that funding will be allocated and which organisations will qualify for funding. The Ministry of Housing, Communities & Local Government (MHCLG) has said it is working closely with the Department for Digital, Culture, Media & Sport (DCMS) and Sport England on the scheme's design.

- 1.8 The Council will continue to work closely with Abbeycroft to ensure that it gets the best possible result from the scheme, thus reducing the need (or more likely pace) at which it would draw down on the loan facility. It is worth considering that approximately 40% of Councils utilise this model for leisure facilities and therefore the fund is unlikely to be able to resolve the challenges all leisure providers face in full. Given this, and the current lack of clarity on the timing of grant payments, it is likely Abbeycroft will still be required to call on further support from the loan provision.

2. Proposals within this report

2.1 Loan Conditions

- 2.2 **Report No: CAB/WS/20/051** set out, in Section 5, that the loan period was expected to be offered up to September 2026 (six-year loan) with the loan fully repayable by the end of that six-year loan term. The loan agreement would include a default loan repayment plan, with repayment due from April 2024, however there would be the opportunity to review this default repayment plan up to March 2023. Early repayment would be allowable. The final details of the loan were to be delegated to the Council Section 151 Officer and would be part of the negotiations with Abbeycroft Leisure.

- 2.3 Following an extensive open book dialogue with Abbeycroft it is proposed that a £500,000 tranche of the secured loan facility to be extended to 10 years (in line with recent government guidance). The loan will be provided at a fixed rate for the first 5 years to provide certainty of the loan liabilities for Abbeycroft:

- 0% year 1-2
- 2% years 3-5
- 2% above base years 6-10.

Repayments of the Loan will start at year 3 and be set at a level allowing net profit below 0.5% of turnover to be retained by Abbeycroft. The facility will include appropriate safety clauses to ensure the loan is repaid by year 10 and the value of secured assets remains above the loan drawdown amount throughout life of loan. The funding of the loan will be through the Council's unallocated useable capital receipts reserve, repayment of the loan will then replenish this reserve.

- 2.4 Recognising the financial constraints Abbeycroft currently face, the loan agreement will include appropriate safeguards to protect the public purse. In particular, the Council and Abbeycroft to continue to operate its open book approach and will agree payment triggers and levels through this approach, particularly having regard to any Government funding received. The agreement will be entered into in accordance with the provisions of the wider collaboration agreement the Council has with Abbeycroft which includes open book and quarterly review of finance and performance.

3. Alternative options that have been considered

- 3.1 Whilst the loan facility can provide financial capacity and stability to the delivery of leisure services within West Suffolk through Abbeycroft, alternative options are not drawn out in this report. This decision could be postponed until the grant funding is in place but as there is no certainty over the timing of that, the continued delay could impact on viability further. This position will be kept under review as we continue to operate in a COVID world and with social distancing measures in place.

4. Consultation and engagement undertaken

- 4.1 Weekly dialogue has been in place with Abbeycroft leisure to review their performance and financial position.
- 4.2 The Council has engaged directly with both Sport England and UK Active to understand and support the requests to Treasury for support to the sector.
- 4.3 Regular engagement with Babergh District Council has taken place in recognition that Abbeycroft deliver leisure services there too.

5. Risks associated with the proposals

- 5.1 The risks associated with the loan have been considered and discussed with the portfolio holders for Leisure and Resources. The final terms of the loan reflect the management of these risks. For example, the security risk for the loan is managed through the proposed charge on all of Abbeycroft's 'West Suffolk agreement' assets for this first tranche of the facility.
- 5.2 The repayment risk will be managed through the longer loan term and the loan agreement clauses and links to the wider management/partnership agreement with Abbeycroft.

6. Implications arising from the proposals

- 6.1 Financial – as set out in the body of the report.
- 6.2 Legal Compliance
 - 6.2.1 Advice has been sought as to whether this loan would constitute State aid and consideration has been given to the temporary framework for State aid measures published by the EU and the LGA advice. Public support for a project will only amount to State aid if the aid given affects trade between Member States of the EU. This proposal is focussed on West Suffolk immediate locality and therefore falls outside the scope of State aid.
 - 6.2.2 A loan facility agreement will be agreed with Abbeycroft which will set out the terms under which the loan is to be drawn down and repaid.
- 6.3 Personal Data Processing – no significant implications
- 6.4 Equalities – no significant implications
- 6.5 Crime and Disorder - no significant implications
- 6.6 Environment or Sustainability - improvement of environmental performance of leisure centres addressed through other work
- 6.7 HR or Staffing: Finance and legal resource to deliver the recommendations of this paper delivered secured from existing resource.
- 6.8 Changes to existing policies: departure from the standard loans policy as explained in Section 2.
- 6.9 External organisations (such as businesses, community groups): Impact on Abbeycroft fully explained. Other community groups use leisure centre buildings and Abbeycroft makes a wider social impact and the loan facility will support that.

7. Appendices referenced in this report

- 7.1 Exempt Appendix 1. Abbeycroft Leisure Covid -19 Loan Facility

8. Background documents associated with this report

- 8.1 [Report Number CAB/WS/20/051 \(Cabinet - 21 July 2020\)](#)